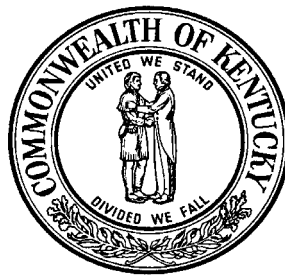


**REPORT OF THE AUDIT OF THE
ALLEN COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

August 24, 2004



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Johnny Hobdy, Allen County Judge/Executive
Honorable Les Marsh, Allen County Sheriff
Members of the Allen County Fiscal Court

The enclosed report prepared by Stephens & Lawson, P.S.C., Certified Public Accountants, presents the Allen County Sheriff's Settlement - 2003 Taxes as of August 24, 2004.

We engaged Stephens & Lawson, P.S.C. to perform the financial audit of this statement. We worked closely with the firm during our report review process; Stephens & Lawson, P.S.C. evaluated the Allen County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
ALLEN COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

August 24, 2004



**STEPHENS
& LAWSON**

Certified Public Accountants

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ALLEN COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES

August 24, 2004

Stephens & Lawson, P.S.C. has completed the audit of the Sheriff's Settlement - 2003 Taxes for Allen County Sheriff as of August 24, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$5,468,446 for the districts for 2003 taxes, retaining commissions of \$191,110 to operate the Sheriff's office. The Sheriff distributed taxes of \$5,134,017 to the districts for 2003 Taxes. Taxes of \$26,735 are due to the districts from the Sheriff and refunds of \$26,725 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff Should Retain Commissions For The Collection And Distribution Of Fire Dues

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2003 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENT AND RECOMMENDATION	9
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



**STEPHENS
& LAWSON**

Certified Public Accountants

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Johnny Hobdy, Allen County Judge/Executive

Honorable Les Marsh, Allen County Sheriff

Members of the Allen County Fiscal Court

Independent Auditor's Report

We have audited the Allen County Sheriff's Settlement - 2003 Taxes as of August 24, 2004. This tax settlement is the responsibility of the Allen County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Allen County Sheriff's taxes charged, credited, and paid as of August 24, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Johnny Hobdy, Allen County Judge/Executive
Honorable Les Marsh, Allen County Sheriff
Members of the Allen County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Retain Commissions For The Collection And Distribution Of Fire Dues

Respectfully submitted,

Stephens & Lawson, P.S.C.

Stephens & Lawson, P.S.C.

Audit fieldwork completed -
October 21, 2004

ALLEN COUNTY
LES MARSH, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

August 24, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 408,734	\$ 1,249,579	\$ 2,330,203	\$ 561,180
Tangible Personal Property	67,282	267,884	279,751	197,610
Intangible Personal Property				14,431
Fire Protection	2,318			
Increases Through Exonerations	28	70	152	37
Omitted Taxes	85	109	426	62
Franchise Corporation	44,650	130,279	197,219	
Additional Billings	108	401	614	462
Oil and Gas Property Taxes	166	433	947	228
Limestone, Sand, and Mineral Reserves	63	166	362	87
Bank Franchises				
Penalties	3,640	11,753	20,330	4,905
Adjusted to Sheriff's Receipt	(370)	(972)	(2,147)	(687)
Gross Chargeable to Sheriff	<u>\$ 526,704</u>	<u>\$ 1,659,702</u>	<u>\$ 2,827,857</u>	<u>\$ 778,315</u>
<u>Credits</u>				
Exonerations	\$ 13,754	\$ 43,428	\$ 61,815	\$ 13,905
Discounts	5,609	17,023	31,022	9,615
Delinquents:				
Real Estate	10,392	35,499	59,167	14,230
Tangible Personal Property	235	707	979	154
Delinquent Oil	9	25	54	13
Uncollected Franchise	699	1,824	3,974	
Total Credits	<u>\$ 30,698</u>	<u>\$ 98,506</u>	<u>\$ 157,011</u>	<u>\$ 37,917</u>
Taxes Collected	\$ 496,006	\$ 1,561,196	\$ 2,670,846	\$ 740,398
Less: Commissions *	21,368	57,863	80,125	31,754
Taxes Due	\$ 474,638	\$ 1,503,333	\$ 2,590,721	\$ 708,644
Taxes Paid	488,466	1,469,498	2,510,133	665,920
Refunds (Current and Prior Year)	<u>12,554</u>	<u>34,150</u>	<u>53,853</u>	<u>42,752</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (26,382)</u>	<u>\$ (315)</u>	<u>\$ 26,735</u>	<u>\$ (28)</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

ALLEN COUNTY
 LES MARSH, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2003 TAXES
 August 24, 2004
 (Continued)

* Commissions:

10% on \$	10,000
4.25% on \$	2,076,091
4% on \$	543,770
3% on \$	2,670,846
0% on Fire Dues \$	167,739

** Special Taxing Districts:

Library District	\$	(82)
Extension District		5
Soil Conservation		(1)
Ambulance		4
Fire Dues		<u>(241)</u>
Due Districts or (Refunds Due Sheriff)	\$	<u><u>(315)</u></u>

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENT

August 24, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of August 24, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENT
August 24, 2004
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 6, 2003 through April 16, 2004.

Note 4. Interest Income

The Allen County Sheriff earned \$2,003 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of October 21, 2004, the Sheriff owes \$53 in interest to the school district and \$15 in interest to his fee account.

Note 5. Additional Fees

The Allen County Sheriff collected \$28,914 in additional fees. A portion of that amount are the 10% add-on fees allowed by KRS 134.430(3). These fees will be used to operate the Sheriff's office. The balance of these fees represent advertising costs and fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

ALLEN COUNTY
LES MARSH, SHERIFF
COMMENT AND RECOMMENDATION

As of August 24, 2004

The Sheriff Should Retain Commissions For The Collection And Distribution Of Fire Dues

The Sheriff collected \$167,739 in Fire Dues during the collection of 2003 Taxes. The Sheriff did not retain commissions on this amount. KRS 273.401 states, in part, that "membership charges or subscriber fees shall be collected and distributed by the sheriff, in the same manner as the other taxes on the bill." In accordance with KRS 273.401, the Sheriff is entitled to retain commissions on Fire Dues "in the same manner as the other taxes on the bill," therefore we recommend the Sheriff and County Judge/Executive consult with the County Attorney in order to determine the appropriate amount of commissions due to the Sheriff for 2003 and future collections.

County Attorney William P. Hagenbuch's Response:

We understand how to handle the Sheriff's fee in the future. However, because we fee pool the Sheriff's accounts, we do not believe recoupment would accomplish anything for past years.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



The Honorable Johnny Hobdy, Allen County Judge/Executive
The Honorable Les Marsh, Allen County Sheriff
Members of the Allen County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Allen County Sheriff's Settlement - 2003 Taxes as of August 24, 2004, and have issued our report thereon dated October 21, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Allen County Sheriff's Settlement - 2003 Taxes as of August 24, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and is described in the accompanying comment and recommendation.

- The Sheriff Should Retain Commissions For The Collection And Distribution Of Fire Dues

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Allen County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Stephens & Lawson, P.S.C.

Stephens & Lawson, P.S.C.

Audit fieldwork completed -
October 21, 2004

